

TESTIMONY OF JAMES COURTER, CEO AND VICE CHAIRMAN

IDT CORPORATION

BEFORE THE HOUSE COMMITTEE ON GOVERNMENT REFORM

MARCH 3, 2005

Chairman Davis and members of the committee, thank you for inviting me here today. I am Jim Courter, CEO and Vice Chairman of IDT Corporation. As a former 12-year congressman from New Jersey, and the former Chairman of the President's Base Closure and Realignment Commission, I greatly respect the hearing process and truly appreciate the opportunity to testify today about the proposed government-wide telecommunications program, Networx.

First, by way of background, I wanted to provide you with an understanding of the IDT network and offerings.

[An expanding, facilities-based global network.](#)

IDT [NYSE: IDT and IDT.C] is a leading provider of wholesale and retail telecommunications services, using our own network infrastructure to route calls worldwide.

With our global switching facilities and fiber optic network, IDT is international in scope, with annual revenues over [\\$2.2](#) billion, and providing more than [20.4](#) billion annual telecom minutes of use. We're also continually expanding our worldwide presence, employing [over 4,400](#) people, with offices in more than [18](#) countries on five continents.

Today, we're an industry leader in calling card distribution[on](#).

IDT is comprised of seven distinct corporations: IDT, IDT Telecom, IDT Media, IDT Entertainment, Net2Phone, Winstar Communications LLC (doing business with the Government as Winstar Government Solutions), and IDT Spectrum, Inc. IDT is a non-operating holding company and publicly held corporation. IDT Telecom, [our telecom](#) subsidiary, oversees our carrier business, our calling card business and our consumer phone service. IDT Media includes our radio, brochure distribution and corporate video services businesses. IDT Entertainment contains our innovative computer generated animation business. IDT Corporation financially consolidates and exercises voting control over Net2Phone, a leading provider of Voice over IP phone services, which trades on the NASDAQ under the symbol NTOP. Winstar is an alternative local exchange carrier for Government in select buildings, providing local, long distance and high-speed Internet through the Metropolitan Area Acquisition (MAA) contracts. IDT Spectrum is the nation's largest holder of commercial, exclusively licensed fixed wireless spectrum. IDT Spectrum leases spectrum and also provides fixed wireless services. We expect utilization of fixed wireless spectrum as

a secure and reliable alternative to fiber and wireline networks to grow due to two major factors: (i) demand for redundant and independent communications systems for government agencies and commercial enterprises concerned with the threat of catastrophic network outages and (ii) the growth in higher bandwidth mobile wireless backhaul as a result of the rapid increase in minutes carried on mobile wireless networks plus the deployment of third generation ("3G") technologies by those carriers.

Listed 746<sup>th</sup> among the Fortune 1000, IDT has almost no debt and cash reserves of over \$1 billion.

## COMMENTS ON NETWORKX

We previously filed comments in the Networkx proceeding. We also studied the RFP closely. We were pleased to see that the RFP took into account the need for federal sites to acquire telecommunications from physically separate facilities.

### I. Physically Diverse Telecommunications Systems

When September 11, 2001 unfolded and telecommunications services predominately shut down below Canal Street, our system designs comprised the only services that continued to function. The reason for this was basic - - the design offered truly physical diverse telecommunications. In particular the design offered: (i) physically diverse telecommunications ingress and egress to buildings through exclusively licensed and secure fixed wireless networks, (ii) utilized physically separate telecom rights-of-way and (iii) routed to physically separate local network facilities. We agree with the recent decision by Congress to pass legislation requiring physically diverse telecommunications in federally owned buildings.

Accordingly, it makes good sense for the Networkx program to provide federal agencies with the ability to order physically diverse telecommunications services. IDT Spectrum, Inc. with its ubiquitous exclusively licensed fixed wireless spectrum holdings - - the largest in the nation-- offers those exact services.

### II. An Effective Networkx Procurement Requires Reasonable Estimates

We agree that it is time for the nation to re-examine telecommunications network procurement on a nationwide scale and we congratulate the General Services Administration (GSA) on the hard work already accomplished to date. We filed comments in the Networkx proceeding and believe a critical component of an effective Networkx procurement will be the accurate and realistic estimation of the Government's requirements for diverse facilities to be purchased from telecommunications contractors like IDT Spectrum. In this regard, the Government should take special care to avoid the mistakes experienced under the Metropolitan Area Acquisition (MAA) program.

The GSA touted the MAA program as a multi-billion dollar business opportunity for telecommunications companies. The GSA set forth substantial dollar ceiling prices in the various MAA solicitations, which induced Winstar to invest hundreds of millions of dollars in a new national network to service Government customers, and to bid severely discounted prices for the MAA services. During the course of the MAA contracts, however, Winstar has received only a small fraction of the business

volume touted by GSA, despite the company's low prices. As a result, there is no realistic prospect for Winstar to recover its enormous financial investment in the nationwide network made for the MAA program, and the company continues to lose millions of dollars every month on these Government contracts. All told, the MAA contracts have been devastating to Winstar's financial health, while providing Government customers with discounted prices based on the inflated requirements set forth in the MAA solicitations.

We are now in discussions with the GSA to resolve and or correct this imbalance.

For the Networx program, the MAA contracts provide an important lesson. For an effective Networx procurement, as well as the long-term success of the program, the Government must compile accurate and realistic estimates regarding agency requirements for diverse telecommunications facilities. In turn, Networx solicitations must be based on these reasonable estimates of the Government's actual needs, resulting in appropriate and fair prices from telecommunications vendors like IDT Spectrum. Ultimately, the Government will better ensure the success of Networx by obtaining these critical services at competitive prices without sacrificing the financial health of our country's alternative telecommunications carriers.

### 3. Make the "Enterprise" Option Real

The GSA proposes to offer potential Networx service providers a choice. Providers can choose to seek business through:

- (i) "Universal" (i.e. require the bidders to offer a comprehensive solution to provide all services the GSA seeks to make available) or
- (ii) "Enterprise" (i.e., allow bidders to seek certain lines of business).

We encourage the GSA to make certain that the contract minimums and contract estimates, as well as the categories for each line of business, allow Enterprise providers to actually access significant amounts of business. If the system is effectively designed so that only the putative Universal providers - - most likely the RBOCs - - obtain access to the lion's share of the Networx business, then it harms innovation, competition and the public interest. We encourage GSA to make the Enterprise option real.

### CONCLUSION

We look forward to the finalization of the format for the Networx deployment and the ability of customers to access better, competitive services. I wish to thank the Committee for holding this very important hearing.